Weekly Commentary – April 1, 2019

Alfred Lam, MBA, CFA  
Senior Vice-President & Chief Investment Officer  
CI Multi-Asset Management

Richard J. Wylie, MA, CFA  
Vice-President, Investment Strategy  
Assante Wealth Management

Economic Calendar

<table>
<thead>
<tr>
<th>Date</th>
<th>Release</th>
<th>Period</th>
<th>Consensus</th>
<th>Previous</th>
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<td>U.S.</td>
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<td>April 1</td>
<td>ISM Manufacturing PMI</td>
<td>March 19</td>
<td>53.0</td>
<td>54.2</td>
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<tr>
<td>April 2</td>
<td>Durable Goods Orders</td>
<td>February 19</td>
<td>0.7%</td>
<td>0.4%</td>
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<tr>
<td>April 3</td>
<td>Markit Composite PMI Final</td>
<td>March 19</td>
<td>54.3</td>
<td>55.5</td>
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<tr>
<td>April 3</td>
<td>ISM Non-Manufacturing PMI</td>
<td>March 19</td>
<td>54.0</td>
<td>59.7</td>
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<td>Canada</td>
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<tr>
<td>April 1</td>
<td>RBC Manufacturing PMI</td>
<td>March 19</td>
<td>52.5</td>
<td>52.6</td>
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<tr>
<td>April 5</td>
<td>Full Time Employment Change</td>
<td>March 19</td>
<td>14.8 k</td>
<td>67.4 k</td>
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Key Earnings:
April 1: Capstone Companies Inc., Ideal Power Inc., Sigma Labs Inc., Vislink Technologies Inc.
April 2: Pacific Coast Oil Trust, Titan Pharmaceuticals Inc., Walgreens Boots Alliance Inc.
April 4: Duluth Holdings Inc., Greenbrier Companies Inc., Schnitzer Steel Industries Inc.

Market Focus

Canada posts second largest trade deficit on record
Updated figures from Statistics Canada revealed that the nation’s merchandise trade deficit with the world narrowed slightly to $4.25 billion in January, the second-widest deficit on record and $570 million less than the $4.82 billion deficit registered in December 2018. The trivial tapering of the deficit can be linked to stronger trade in energy products. Exports of oil shipments jumped 36.5%, driven by a price rebound at the start of the year. Even still, crude export prices remained 40.1% below their July peak. Eight of the 11 major sub-groups reported a monthly gain and, as a result, exports grew 2.9% to $47.58 billion, recording the first increase since July 2018. Imports gained 1.5% to a record $51.82 billion as imports of aircraft were up more than six-fold in January, reflecting the influx of airliners from the U.S. In contrast, the U.S. Department of Commerce reported that the corresponding U.S.-international trade deficit narrowed to US$51.10 billion in January from its widest level in 10 years.

Canadian economy emerges from slump
January data show that the Canadian economy began the year with its largest output gain in eight months. Updated figures from Statistics Canada revealed a 0.3% (monthly basis, seasonally adjusted) advance in overall GDP in January. This fully offset the back-to-back 0.1% declines in the last two months and beat consensus expectations of a flat-to-marginal decline month. The monthly advance bolstered year-over-year GDP by 0.5 percentage points to 1.6% in January. This is just a tick below the Bank of Canada’s downwardly revised 2.0% forecast published in January. Eighteen of 20 industrial sectors increased over the period, with construction activity up 1.9%, its largest growth in over five years, and the manufacturing sector, which also advanced 1.5%. The data suggest a much less bleak picture for Canada’s economy, with January GDP now putting growth on pace for a stronger first quarter than economists’ expectations. The gains should also strengthen the central bank’s confidence that growth will resurface this year. The strong results reduced temporary fears of a looming recession and suggest that the bank is likely to hold rates steady at its next policy window on April 24.
U.K. economy slows amid deepening Brexit fears
The U.K. Office for National Statistics announced that, on a year-over-year basis, real GDP expanded by an unrevised 1.4% in Q4 2018, down from the 1.6% advance registered in the third quarter. This was the same level recorded in Q2 2018 and the weakest growth rate since Q2 2012. On a quarterly basis, real GDP growth slowed to 0.2% in Q4 2018 from the previous three-month period’s revised figure of 0.7%. The U.K. economy ended on the back foot in 2018, as the economy grew at its weakest rate since the financial crisis. On March 29, the officiate date that the U.K. was set to leave the European Union (EU), Prime Minister Theresa May suffered a third defeat in the House of Commons regarding her recently proposed Brexit deal. Britain is now scheduled to leave the EU on April 12 and May’s latest defeat suggests that the probability for a “no-deal” Brexit scenario is much more likely. As a result, business investment will likely continue to suffer and the extreme levels of uncertainty and volatility in the U.K. has left it “looking like an emerging market.” The economic outlook is now, more than ever, significantly dependent on the nature and final results of the terms of the U.K.’s departure.

Longer View
It will likely take some time for central banks to normalize interest rates and unwind the quantitative easing that has added trillions of dollars to central banks’ balance sheets. Growth rates for loans will slow significantly because of the unwind likely causing economies to grow at below-average rates. Valuations for stocks are fair and expected returns are positive although overall markets are unlikely to deliver double-digit returns over the next decade. Companies that have solid balance sheets will likely outperform. Recent volatility and general noise in the market can represent a material distraction and may discourage investors. Working with a financial advisor will ensure your portfolio is optimized and continues to meet your needs.

Weekly Summary
March 25
▲ According to Munich’s ifo Institute, the ifo Business Climate Index for Germany increased by 0.9 points to 99.6 in March. This was the first increase following six consecutive declines. The results were slightly above market expectations. The index’s increase was underscored by gains in both the current conditions and business expectations sub-indexes. The current conditions sub-index rose 0.2 points to 103.8 in March, while the business expectations sub-index advanced 1.6 points to 95.6. This marked the first increase in both sub-indexes since September 2018. This report’s findings suggest that German companies are somewhat more satisfied with their current business situation and are more optimistic towards the coming six months. This contrasts the results found in the IHS Markit Flash Germany PMI March report, which signalled the lowest rate of business activity growth since mid-2013.

▼ The Federal Reserve Bank of Chicago reported that the Chicago Fed National Activity Index (CFNAI) decreased to -0.29 in February, following an upwardly-revised -0.25 reading in January. This was the lowest reading since May 2018 and was somewhat below market expectations. Three of the four categories in the CFNAI made negative contributions to the index in February: employment-related indicators (-0.10), production-related indicators (-0.16), and the personal consumption and housing category (-0.06). Meanwhile, the index’s less volatile three-month moving average moved down to -0.18 in February from a neutral 0.0 reading in January. The negative contributors indicate that U.S. economic growth is currently below trend. The CFNAI assists in gauging overall economic activity and inflationary pressures in the U.S.

March 26
▼ The U.S. Census Bureau announced that housing starts were at a seasonally adjusted annual rate of 1,162,000 in February. This is 8.7% below the revised January estimate of 1,273,000 and is 9.9% below the February 2018 rate of 1,290,000. It was the largest monthly decline in housing starts since June 2018. At the same time, the number of building permits issued in February was at a seasonally adjusted annual rate of 1,296,000. This is 1.6% below the revised January rate of 1,317,000 and is 2.0% below the February 2018 figure of 1,323,000. Both start and permit figures were weaker than market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.
Germany’s largest market research institute announced that the nation’s consumer climate indicator decreased to 10.4 points heading into April, following a revised 10.7 reading in March. It was the lowest reading since December 2018 as both the propensity to buy and income expectations dimmed amid Brexit uncertainties and trade conflict. These results were marginally weaker than market expectations. Following the apparent stable start to 2019, this first setback indicates that domestic consumption will become an important pillar of economic expansion in Germany this year.

According to final estimates, France’s national statistics bureau announced that real GDP expanded 0.3% (quarterly basis) in Q4 2018, unchanged from the growth rate registered in the previous quarter. On a year-over-year basis, real GDP advanced 1.0%. It was the weakest annual growth rate since Q3 2016. For calendar year 2018, the economy expanded 1.6% (originally 1.5%), following a 2.3% increase over the same period in 2017. The significant strength in France’s exports (2.2%) was a key driver in lifting GDP growth into positive territory as it more than offset weak domestic demand results found at the end of 2018.

March 27
Statistics Canada reported that merchandise exports increased 2.9% in January, mainly on the strength of higher crude oil export prices, while imports rose 1.5%. As a result, Canada’s merchandise trade deficit with the world narrowed from $4.82 billion in December to $4.25 billion in January. This is Canada’s second consecutive monthly trade deficit exceeding $4.0 billion. The trade gap was significantly wider than consensus estimates.

The U.S. Census Bureau announced that the country’s international trade deficit in goods and services narrowed sharply to US$51.1 billion in January, down from a revised US$59.9 billion in December, which was the largest recorded deficit since 2008. Exports increased 0.9% to US$207.3 billion. Imports fell -2.6% to US$258.5 billion. The trade deficit was somewhat smaller than expected. The surprise narrowing of the trade gap in January points to an upward revision to real GDP tracking estimates closer to 2.0%.

According to France’s national statistics bureau, the nation’s consumer confidence indicator increased to 96.0 in March, following a 95.0 reading in February. It was the highest reading since August 2018 and in line with market expectations. Despite rising fears of unemployment, there was an improvement in households’ optimism on their future financial situation, expected saving capacity and major purchases intentions. However, the reading continued to remain below its long-term average of 100.0. This indicates that consumer confidence is still rather pessimistic.

March 28
According to its final estimate, the U.S. Bureau of Economic Analysis announced that real GDP grew at an annual rate of 2.2% (initially reported as 2.6%) in the fourth quarter of 2018. In the third quarter, real GDP increased 3.4% on the same basis. These results are only slightly below expectations, despite several indicators in housing and manufacturing which had shown signs of cooling in the fourth quarter of 2018. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

The U.S. Department of Labor announced that initial jobless claims totalled 211,000 (seasonally adjusted) in the week ending March 23, a decrease of 10,000 from the previous week’s unrevised level. The four-week moving average was 217,250, a decrease of 7,750 from the previous week’s unrevised level. These results were well below consensus estimates and are consistent with strong employment growth.

According to its latest survey, the European Commission reported that the economic sentiment indicator (ESI) for the euro area fell by 0.7 points to 105.5 in March, following a revised 106.2 reading in February. This marked a ninth consecutive month of declines. It was the lowest reading since October 2016 and somewhat below market expectations. The deterioration of euro-area sentiment resulted from decreases in both industry confidence (-1.3) and service confidence (-0.8). By country, the ESI decreased the sharpest in Germany (-1.8), reflecting recent data showing contraction in the country’s manufacturing sector. This report pointed to rising signals of another sluggish quarter for economic activity in the euro area.

Destatis, Germany’s federal statistics office, announced that consumer prices advanced 0.4% (provisional, monthly basis) in March, unchanged from February’s final figure. On a year-over-year basis, consumer price index (CPI) growth ticked lower to
1.3% in March, following a 1.5% advance in February. This was the lowest annual reading since February 2018. These results were weaker than consensus estimates.

**March 29**

▲ Statistics Canada announced that real GDP advanced by 0.3% (seasonally adjusted, monthly basis) in January, offsetting the -0.1% contractions recorded in both December and November. This was Canada’s largest output gain in eight months. The rise was widespread as 18 of 20 industrial factors were up over the period and included the biggest one-month increase in construction activity (1.9%) in more than five years. The monthly rise in output raised year-over-year GDP from 1.1% to 1.6%. On a monthly basis, real GDP by industry grew 0.3% in January, suggesting that the economy is picking up momentum from last year’s bleak outcome. These results are significantly stronger than market expectations. GDP is the broadest measure of aggregate economic activity and encompasses every sector of the economy.

▲ The U.S. Census Bureau announced that new home sales totalled 667,000 units (seasonally adjusted annual rate) in February. This is 4.9% above the revised January rate of 636,000 units (previously reported as 607,000) and 0.6% above the February 2018 level of 663,000 units. Given the scale of the revisions, the overall report is significantly above market expectations. Activity in the housing market has a significant "ripple" effect on the broader economy.

▼ Statistics Japan announced that the unemployment rate decreased to 2.3% (seasonally adjusted) in February, following the 2.5% reading in January. It was the lowest since May 2018, which in turn was the lowest rate in 25 years. Despite Japan’s tightest labour market in decades, frictional unemployment of female job seekers appeared to decrease as they were able to acquire new jobs in February, thus, pushing down the unemployment rate. However, economists see the unemployment rate rising closer to the 2.7% mark by year end as external demand may remain weak and domestic demand may slow following October’s sales tax hike. These results were below market expectations.

▲ The U.K. Office for National Statistics announced that, in their final report, the economy grew by 0.2% in Q4 2018, unchanged from the preliminary estimate and following an upwardly revised 0.7% in the previous quarter. On a year-over-year basis, U.K. GDP growth expanded 1.4% in the three months to December, marginally higher than estimates, and down from a 1.6% advance in the third quarter. This reading was the same level as Q2 2018 and the weakest growth since Q2 2012. The economic outlook will continue to depend significantly on the nature and timing of Brexit.

▼ Germany’s federal statistics office, Destatis, reported that the number of unemployed workers declined by 7,000 in March and the unemployment rate ticked lower by 0.1 percentage points to 4.9%, accordingly. This is the lowest unemployment rate recorded since Germany’s re-unification in 1990 and the euro area’s largest economy is struggling to recruit new workers. These results are somewhat weaker than market expectations.

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